

2008 Annual Report



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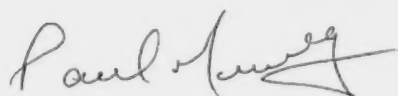
Letter to the Minister of Energy and Infrastructure

I am pleased to submit the 2008 Annual Report of the Independent Electricity System Operator (IESO).

Throughout 2008, the IESO capably delivered on our responsibilities of ensuring the reliability of Ontario's power system and administering the wholesale electricity market in a financially prudent and responsible manner. Our accomplishments in meeting high standards for reliability and providing value to our customers are highlighted in this report.

Our success relies on the high level of support and engagement of our many stakeholders and in 2008 the IESO received valuable input from our market participants and many other organizations.

With the skill and dedication of our employees, the IESO will continue to focus our efforts on delivering the products and services that underpin a viable and competitive electricity market while overseeing the reliable operation of the provincial electricity grid.

A handwritten signature in black ink, appearing to read "Paul Murphy", with a stylized flourish at the end.

Paul Murphy
President and Chief Executive Officer

IESO Accomplishments

Ensuring System Reliability

The IESO has a fundamental and broad mandate to ensure reliability, and each year identifies reliability-related corporate performance measures along with the actions taken to ensure and maintain reliability.

At the IESO's request, the Northeast Power Coordinating Council (NPCC) coordinated an independent, third party expert appraisal of the IESO's own reliability assessment. The Peer Review Team found the IESO had achieved its reliability objectives for the year 2008 by successfully meeting all reliability challenges encountered in all areas. The Peer Review Team cited the IESO's "superior performance" in its ongoing self-assessment process, now established in its 18-Month Outlook and its Ontario Reliability Outlook, and as a system operator in reliably managing system events. The team praised the IESO for its "preparedness, knowledge and training...and the ability of the (system) operator to analyze atypical operating situations."

The IESO was fully compliant with the 38 key electricity reliability standards and 168 reliability requirements monitored by the North American Electric Reliability Corporation (NERC). A regularly scheduled audit evaluated the IESO's compliance with reliability standards pertaining to a broad range of areas, including emergency preparedness; resource and demand balancing; interconnection reliability, operations and coordination; and communications, among others. Auditors performed a comprehensive review of the IESO's operations and found the company to be fully compliant with all applicable standards.

In the post-audit debrief both NPCC auditors and NERC observers specifically commented on the quality of the IESO materials and personnel involved in the process, stating that "it was obvious that reliability is a cornerstone of the IESO culture."

The IESO also contributes to relevant Ontario regulatory proceedings and effectively manages Ontario and international reliability standard development processes. A survey conducted of the Reliability Standards Standing Committee indicates a favourable response from 86 per cent of its membership that the IESO is providing high-quality representation of Ontario's interests.

The IESO has developed and implemented a talent management strategy to ensure its workforce is developing the skills required for the future. Results from the 2008 Employee Engagement Survey show a dramatic increase in the number of employees who feel their skills and capabilities have improved over the past year. This improvement can be attributed, in part, to a commitment to develop tailored, personalized learning plans.

Serving our Customers

Managing relationships with customers, stakeholders and industry partners is a priority for the IESO. The company continues to be held in high regard by its customers, as demonstrated by the results of the 2008 Customer Survey. Rankings continue to be very strong and the IESO is seen as competent and professional and a very technically superior organization. Market participants appreciate the level of service they receive, the quality of the information supplied, and the support that the IESO provides.

Throughout 2008 the IESO continued to meet with customers and associations, providing education on the electricity market in order to help customers better manage their electricity costs. The IESO also provided opportunities for electricity consumers to provide feedback and input into the IESO's plans and activities. The IESO took a targeted, strategic approach to communicating with three key consumer audiences: large-volume market participants, mid-sized customers that pay the market price for electricity and low-volume residential and small business consumers.

The IESO also responded to customer concerns about the administrative burden by ensuring online settlement forms were in service by February 2008, and by eliminating the need for complex digital security certificates for local distribution companies.

Market Evolution Initiatives

The IESO continues to work with stakeholders to identify ways to evolve Ontario's wholesale electricity market. After more than a year of consultation and assessing the costs and benefits of a number of market evolution options, the IESO is proceeding with an Enhanced Day-Ahead Commitment process. Changes will affect the following areas: facility registration, timelines for market operation, bid and offer submission, day-ahead optimization, real-time integration, and settlements. The project is tentatively scheduled to begin market trials in mid-2010. In the meantime, the IESO will continue to work with participants and Stakeholder Advisory Committee members to improve the current real-time pricing model and remove barriers to achieving additional efficiencies in the Ontario electricity market.

The IESO also introduced a Day-Ahead Price Forecast. A reliable forecast of the next day's hourly electricity prices helps consumers better manage their electricity consumption and costs by avoiding higher-priced periods and shifting or reducing some of their electricity use. In addition to stimulating conservation and demand management, the Day-Ahead Price Forecast is also expected to improve market efficiency by encouraging generators to be available during the hours when power is needed the most. The model produces upper and lower price thresholds, which provide a 95 per cent confidence band around the forecast.

Smart Grid

Under the leadership of the IESO, 11 prominent members of Ontario's electricity sector agreed to serve on Ontario's Smart Grid Forum, a broad-based industry dialogue that aimed to develop a vision for a provincial smart grid that will provide consumers with more efficient, responsive and cost-effective electricity service.

A smart grid will enable tomorrow's electricity system to use advanced information-based technologies to increase grid efficiency, reliability and flexibility. It enables the better use of the existing delivery infrastructure and offers benefits for both the consumer and the environment.

In preparation for the release of a report early in 2009, the forum considered how a smart grid in Ontario could deliver significant operational, environmental and consumer benefits, including increased consumer engagement in the market and effective integration of distributed renewable generation.

Effectively Managing Funds

The IESO's total spending in 2008 was \$130.0 million, or 4.1 per cent (\$5.5 million) below the approved budget for the year. The results reflect amortization that was \$8.5 million below budget in 2008, resulting from a capital program review that implemented prudent life extension and upgrading in lieu of replacement or refresh for certain IESO assets.

Operating, Maintenance & Administrative (OM&A) program costs were also successfully managed to \$1.7 million below budget. However, the cost reductions in amortization and OM&A were partially offset by negative variances of \$2.8 million and \$1.8 million in net interest and OM&A pension costs, respectively.

Management Report

Management's Responsibility for Financial Reporting

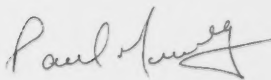
The accompanying financial statements of the Independent Electricity System Operator are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the Independent Electricity System Operator are described in the Summary of Significant Accounting Policies contained in Note 2 in the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been prepared within reasonable limits of materiality and in light of information available up to March 10, 2009.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for the appropriate delegation of authority and segregation of responsibilities.

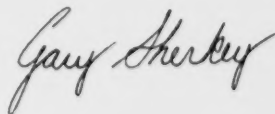
These financial statements have been examined by PricewaterhouseCoopers LLP, a firm of independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles in Canada. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

INDEPENDENT ELECTRICITY SYSTEM OPERATOR

On behalf of management,



Paul Murphy
President and Chief Executive Officer
Toronto, Canada
March 10, 2009



Gary Sherkey
Vice President – Corporate Services
Chief Financial Officer and Treasurer
Toronto, Canada
March 10, 2009

Auditors' Report

March 10, 2009

To the Board of Directors of the Independent Electricity System Operator (IESO):

We have audited the statement of financial position of the IESO as of December 31, 2008 and the statements of operations, other comprehensive income/(loss) and accumulated surplus/(deficit) and cash flows for the year then ended. These financial statements are the responsibility of the IESO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the IESO as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario

Statement of Operations, Other Comprehensive Income/(Loss) and Accumulated Surplus/(Deficit)

(in thousands of Canadian dollars)		For the Year Ended December 31, 2008	For the Year Ended December 31, 2007
		\$	\$
REVENUES			
System fees (Note 10)		132,477	131,538
Other revenue (Note 3)		1,906	2,143
TOTAL REVENUES		134,383	133,681
EXPENSES			
Labour		76,270	77,511
Computer services, support and equipment		8,988	8,980
Contract services and consultants		7,500	8,104
Telecommunications		2,944	3,329
Other costs		6,350	6,482
Smart metering program costs (Note 10)		7,763	124
Amortization		23,360	29,184
TOTAL EXPENSES		133,175	133,714
Income/(loss) Before Interest and Investment Income		1,208	(33)
Interest and investment income/(loss)		(2,321)	97
Interest expense and financing charges		(5,945)	(6,848)
NET LOSS FOR THE YEAR		(7,058)	(6,784)
OTHER COMPREHENSIVE INCOME/(LOSS)		29	(29)
COMPREHENSIVE LOSS		(7,029)	(6,813)
ACCUMULATED SURPLUS - BEGINNING OF YEAR		3,014	9,827
ACCUMULATED SURPLUS/(DEFICIT) - END OF YEAR (Note 10)		(4,015)	3,014

See accompanying notes to Financial Statements.

Statement of Financial Position

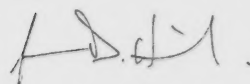
(in thousands of Canadian dollars)

As at December 31, 2008 As at December 31, 2007

	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	12,691	1,229
Accounts receivable	13,775	13,830
Prepaid expenses	3,958	3,127
	30,424	18,186
Property and Equipment (Note 4)		
In service	98,009	96,048
Construction-in-progress	2,127	14,898
	100,136	110,946
Other Assets		
Long-term investments (Note 5)	14,972	16,718
Prepaid pension cost (Note 6)	-	2,971
Deferred costs	1,596	1,596
	16,568	21,285
TOTAL ASSETS	147,128	150,417
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (Note 7)	22,172	26,236
Accrued interest on note payable	1,030	1,030
Note payable (Note 8)	78,200	-
Rebates to market participants (Note 10)	1,386	-
	102,788	27,266
Long-term Liabilities		
Note payable (Note 8)	-	78,200
Accrued pension liability (Note 6)	1,839	-
Accrual for employee future benefits other than pensions (Note 6)	46,516	41,937
	48,355	120,137
TOTAL LIABILITIES	151,143	147,403
ACCUMULATED SURPLUS/(DEFICIT) (Note 10)	(4,015)	3,014
TOTAL LIABILITIES AND ACCUMULATED SURPLUS	147,128	150,417

See accompanying notes to Financial Statements.

On behalf of the Board:



James Hinds
Chair
Toronto, Canada



William Museler
Director
Toronto, Canada

Statement of Cash Flows

(in thousands of Canadian dollars)

	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007
	\$	\$
OPERATING ACTIVITIES		
Net loss for the year	(7,058)	(6,784)
Adjustments for non-cash items:		
Amortization	23,360	29,184
Pension cost	13,456	17,349
Other employee future benefits cost	6,252	6,592
Change in fair value of long-term investments held-for-trading	2,771	1,242
Provision for other than temporary losses on long-term investments	356	666
	39,137	48,249
Changes in non-cash balances related to operations:		
Change in accounts payable and accrued liabilities	(636)	1,182
Change in rebates to market participants	1,386	(12,699)
Change in accounts receivable	55	6,822
Change in prepaid expenses	(831)	650
	(26)	(4,045)
Other:		
Contribution to pension fund	(8,646)	(7,849)
Payment of employee future benefits	(1,673)	(1,426)
	(10,319)	(9,275)
Cash provided by operating activities	28,792	34,929
INVESTING ACTIVITIES		
Net purchase of long-term investments	(1,381)	(4,175)
Investment in property and equipment	(15,949)	(18,090)
Cash used in investing activities	(17,330)	(22,265)
FINANCING ACTIVITIES		
Net retirement of debt	-	(15,000)
Cash used in financing activities	-	(15,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	11,462	(2,336)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,229	3,565
CASH AND CASH EQUIVALENTS - END OF YEAR	12,691	1,229

See accompanying notes to Financial Statements.

Supplementary Information:

(in thousands of Canadian dollars)

Interest Paid	6,224	6,765
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Notes to Financial Statements

1. NATURE OF OPERATIONS

Independent Electricity System Operator (IESO) is a not-for-profit, non-taxable corporation, created by statute effective on April 1, 1999 pursuant to Part II of the *Electricity Act, 1998*. As set out in the *Electricity Act*, the IESO operates pursuant to a licence granted by the Ontario Energy Board (OEB). The objects of the IESO as contained in the *Electricity Act* and amended, in the *Electricity Restructuring Act, 2004* and Ontario Regulation 452/06, are as follows:

- to exercise the powers and perform the duties assigned to the IESO under the *Electricity Restructuring Act, 2004*, the market rules and its licence;
- to enter into agreements with transmitters giving the IESO the authority to direct the operation of their transmission systems;
- to direct the operation and maintain the reliability of the IESO-controlled grid to promote the purposes of the *Electricity Restructuring Act, 2004*;
- to participate in the development, by any standards authority, of standards and criteria relating to the reliability of the transmission systems;
- to work with the responsible authorities outside Ontario to co-ordinate the IESO's activities with their activities;
- to collect and provide information to the Ontario Power Authority (OPA) and the public relating to the current and short-term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs;
- to operate the IESO-administered markets to promote the purposes of the *Electricity Restructuring Act, 2004*;
- to plan, manage and implement the smart metering initiative or any aspect of the initiative;
- to oversee, administer and deliver the smart metering initiative or any aspect of the initiative; and
- to establish and enforce standards and criteria relating to the reliability of transmission systems.

The IESO was designated the Smart Metering Entity by Ontario Regulation 393/07 under the *Electricity Act* made on March 28, 2007. The regulation came into effect on July 26, 2007.

The objects of the Smart Metering Entity, as contained in the *Electricity Act*, are as follows:

- to plan and implement and, on an ongoing basis, oversee, administer and deliver any part of the smart metering initiative as required by regulation under this or any Act or directive made pursuant to sections 28.3 or 28.4 of the *Ontario Energy Board Act, 1998*, and, if so authorized, to have the exclusive authority to conduct these activities;
- to collect and manage and to facilitate the collection and management of information and data and to store the information and data related to the metering of consumers' consumption or use of electricity in Ontario, including data collected from distributors and, if so authorized, to have the exclusive authority to collect, manage and store the data;
- to establish, to own or lease and to operate one or more databases to facilitate collecting, managing, storing and retrieving smart metering data;
- to provide and promote non-discriminatory access, on appropriate terms and subject to any conditions in its licence relating to the protection of privacy, by distributors, retailers, the OPA and other persons,

- i. to the information and data referred to above, and
 - ii. to the telecommunication system that permits the Smart Metering Entity to transfer data about the consumption or use of electricity to and from its databases, including access to its telecommunication equipment, systems and technology and associated equipment, systems and technologies
- to own or to lease and to operate equipment, systems and technology, including telecommunication equipment, systems and technology that permit the Smart Metering Entity to transfer data about the consumption or use of electricity to and from its databases, including owning, leasing or operating such equipment, systems and technology and associated equipment, systems and technologies, directly or indirectly, including through one or more subsidiaries, if the Smart Metering Entity is a corporation;
 - to engage in such competitive procurement activities as are necessary to fulfil its objects or business activities;
 - to procure, as and when necessary, meters, metering equipment, systems and technology and any associated equipment, systems and technologies on behalf of distributors, as an agent or otherwise, directly or indirectly, including through one or more subsidiaries, if the Smart Metering Entity is a corporation;
 - to recover, through just and reasonable rates, the costs and an appropriate return approved by the OEB associated with the conduct of its activities; and
 - to undertake any other objects that are prescribed by associated regulation.

The IESO is required to submit its proposed expenditures, revenue requirements, and fees for the coming year to the OEB for review. The submission may be made only with the approval of the Minister of Energy and Infrastructure (Minister).

On April 22, 2008, the OEB issued its order approving the IESO's 2008 application fee of \$1,000, the usage fee of \$0.799/MWh and the IESO's revenue requirements in the amount of \$135.5 million and capital expenditures in the amount of \$12 million. The OEB reserved its approval of the capital expenditures of \$8 million allocated for the development of the day-ahead market.

The IESO submitted the proposed 2009 expenditures, revenue requirements, and fees for review on October 27, 2008 after receiving approval from the Minister on October 22, 2008 to proceed to the OEB. To date, the OEB has not approved the IESO's proposed usage fee for 2009.

The IESO's smart meter service fees have not yet been established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of financial statement preparation

The accompanying financial statements have been prepared on a going concern basis and in accordance with accounting principles generally accepted in Canada. The IESO adopted new Canadian Institute of Chartered Accountants Handbook: section 1535, capital disclosures; section 3863, financial instruments - disclosures; section 3863, financial instruments - presentation; and section 1400, general standards of financial statement presentation, effective January 1, 2008. The new accounting standards required the IESO to provide new disclosures which are included in notes 3, 5, 9 and 11.

b) Revenue recognition

System fees earned by the IESO are based on approved rates for each megawatt of electricity withdrawn from the IESO-controlled grid, including exports. System fees are recognized as revenue at the same time as the electricity is withdrawn. Rebates are recognized in the year in which the approved regulatory deferral account, before such rebates, exceeds regulated limits.

These financial statements do not include the financial transactions of market participants within the IESO-administered markets.

Other revenue represents amounts that accrue to the IESO relating to services the IESO performs and charges on a recovery basis, investment income on funds passing through market settlement accounts, as well as fines and penalties. Such revenue is recognized as it accrues.

c) Financial instruments

Classification

- The IESO designated its investment portfolio as being "held for trading" and classified its cash and accounts receivable as "loans and receivables."
- Cash and cash equivalents comprise cash, term deposits and other short-term, highly-rated investments with original maturity dates of less than 90 days.

Recognition and measurement

- Held for trading investments are recorded at fair value with gains and losses recorded in the statement of operations. Transactions are recorded based on trade dates. Transaction costs are charged to operations as incurred.
- Loans and receivables are initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method.
- The IESO's financial liabilities, comprising accounts payable and long-term debt are carried at amortized cost.
- Foreign currency exchange forward contracts are recorded at fair value. Where foreign currency exchange forward contracts meet the criteria for hedge accounting, changes in their values are reflected in accumulated surplus as other comprehensive income. Where such contracts do not meet the criteria for hedge accounting, changes in their value are recognized in the statement of operations.

d) Construction-in-progress

Construction-in-progress generally relates to the costs of physical facilities, hardware and software, and includes costs paid to vendors, internal and external labour, consultants and interest related to funds borrowed to finance the project. Costs relating to construction-in-progress are transferred to property and equipment in service when the asset under construction is deemed to be ready for use.

e) Property and equipment in service

Property and equipment are capitalized at cost, which comprises materials, labour, external support, overheads, and interest applicable to capital activities.

f) Amortization

The capital cost of property and equipment in service is amortized on a straight-line basis over their estimated service lives.

The estimated service lives in years, from the date the assets were acquired, are:

<u>Class</u>	<u>Estimated Average Service Life</u>
Facilities	39
Smart Meter Data Management/Repository	6
Market Systems and Applications	4 to 9
Infrastructure and Other Assets	4 to 7

Gains and losses on sales of property and equipment and losses on premature retirements are charged to operations. Removal costs are charged to operations, as incurred.

The estimated service lives of property and equipment and the significant assumptions underlying the estimates of removal costs are subject to periodic review. The impacts of changes in the estimated lives of property and equipment are amortized on a prospective basis. The most recent review was completed in fiscal 2008.

g) Pension and other post-employment benefits

The IESO's post-employment benefit programs include pension, group life insurance, health care, long-term disability and workers compensation benefits.

The IESO accrues obligations under pension and other post-employment benefit (OPEB) plans and the related costs, net of plan assets. Pension and OPEB expenses and obligations are determined annually by independent actuaries using the projected benefit method and management's best estimate of expected return on plan assets, salary escalation, retirement ages of employees, mortality and expected health-care costs. The discount rate used to value liabilities is based on market rates as at the measurement date of September 30.

The expected return on plan assets is based on management's long-term best estimate using a market-related value of plan assets. The market-related value of plan assets is determined using market-related values for equities (whereby fund assets are calculated using the smoothed value of assets over five years) and market values for fixed income securities, as at the measurement date of September 30.

Pension and OPEB expenses are recorded during the year in which employees render services. Pension and OPEB expenses consist of current service costs, interest expense on liabilities, expected return on plan assets and the amortization of plan amendments on a straight-line basis over the expected average remaining service life of the employees covered by the plan. Actuarial gains/(losses) arise from, among other things, the difference between the actual rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligations. The excess, if any, of the cumulative unamortized net actuarial gain or loss over 10% of the greater of the projected benefit obligation and the market-related value of plan assets is also amortized over the expected average remaining service life of the employees covered by the plan.

The expected average remaining service life of employees covered by the pension and OPEB plans is 11 years (2007 - 11 years).

h) Deferred costs

Deferred costs represent start-up costs incurred by the IESO during 2006 for the smart metering initiative (\$1,595,605). These costs will be recognized over a period of six years in a manner consistent with estimated IESO smart meter service fee revenues over that period.

i) Foreign currency exchange

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated in Canadian dollars at the rate prevailing at that date. Exchange gains and losses arising on settlement of foreign exchange transactions are reported in the statement of operations at the date at which the transactions are settled.

j) Use of estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements. Actual results could differ from those estimates.

k) Comparative figures

Certain 2007 comparative figures have been reclassified to conform to the 2008 financial statement presentation.

3. OTHER REVENUE

In its administration of the IESO-Administered Markets, the IESO directs the investment of market funds in highly-rated short-term investments, including asset-backed commercial paper (ABCP), throughout the settlement cycle. The IESO is ordinarily entitled to receive the investment income earned on funds passing through the real-time market settlement accounts.

As a result of general worsening of global credit market conditions, the Canadian market for non-bank ABCP in August 2007 was not able to refinance thereby creating a liquidity issue. Accordingly, some of the investments made for the real-time energy market were rendered illiquid. As at December 31, 2008, investments with a principal amount of \$23.1 million in non-bank sponsored ABCP notes remain illiquid and neither the associated principal repayments nor the interest payments on these notes were paid at their maturity dates, all of which were prior to December 31, 2008. Although the process to restructure the affected investments under the Companies' Creditors Arrangements Act was completed in January 2009, the investments remained effectively in a standstill situation at December 31, 2008.

The IESO is not obligated to reimburse the market accounts in respect of the credit losses incurred on the ABCP investments. However, the IESO has not recognized as other revenue any investment income earned in the market settlement accounts during the year.

In addition, as a result of the illiquid ABCP in the market accounts, the IESO has, from time to time in 2008, provided short-term financing to the market to fund the settlement process. The IESO financed these loans through short-term drawings on its credit facility. The maximum amount borrowed by the IESO and advanced to the market during the year at any one time was \$18,900,000.

4. PROPERTY AND EQUIPMENT

	As at December 31, 2008			As at December 31, 2007		
(in thousands of Canadian dollars)	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$	\$	\$	\$
Property and equipment in service						
Facilities	49,782	12,279	37,503	49,619	10,761	38,858
Smart Meter Data Management/ Repository	16,650	2,557	14,093	-	-	-
Market Systems and Applications	228,775	195,241	33,534	224,497	181,952	42,545
Infrastructure and Other Assets	84,594	71,715	12,879	89,662	75,017	14,645
	379,801	281,792	98,009	363,778	267,730	96,048
Construction-in-progress	2,127	-	2,127	14,898	-	14,898
	381,928	281,792	100,136	378,676	267,730	110,946

In 2008, the impact of adjustments to management's estimates of remaining asset service lives was a decrease in amortization expense of \$6,444,136. In 2007, the impact of adjustments to management's estimates of remaining asset service lives was a decrease in amortization expense of \$3,356,468.

5. LONG-TERM INVESTMENTS

Long-term investments in a balanced portfolio of pooled funds are valued by the pooled funds manager based on published price quotations and amount to \$14,501,928 (2007 – \$16,051,815). As at December 31, the market value allocation of these long-term investments was 56.6% equity securities, 43.4% debt securities and 0.0% cash equivalents (2007 – 60.8%, 34.7%, and 4.5% respectively).

Long-term investments in non-bank sponsored ABCP carried at \$469,840 are valued based on estimated discounted cash flows and reflect a provision for other than temporary losses of \$1,022,150.

Balanced portfolio of pooled funds (in thousands of Canadian dollars)	As at December 31, 2008 \$	As at December 31, 2007 \$
Opening balance	16,052	14,450
Purchase of investments	1,381	2,832
Change in fair value	(2,931)	(1,230)
Closing balance	14,502	16,052

6. POST-EMPLOYMENT BENEFIT PLANS

The IESO provides pension and other employee post-employment benefits, comprising group life insurance, long-term disability and group medical and dental plans, for the benefit of current and retired employees.

Pension plans

The IESO provides a contributory defined benefit, indexed, registered pension plan. In addition to the funded, registered, pension plan, the IESO provides certain non-registered defined benefit pensions through an unfunded, indexed, non-registered plan.

Other employee future benefits

The group life insurance, long-term disability and group medical and dental benefits are provided through unfunded, non-registered defined benefit plans.

Summary of accrued benefit obligations and plan assets

	2008	2007	2008	2007
	Pension	Pension	Other	Other
	Benefits	Benefits	Benefits	Benefits
(in thousands of Canadian dollars)	\$	\$	\$	\$
Accrued benefit obligation	367,356	383,311	60,037	59,047
Fair value of plan assets	264,870	320,468	-	-
Funded status	(102,486)	(62,843)	(60,037)	(59,047)
Employer contribution after measurement date	2,154	1,956	449	352
Unamortized past service costs	3,021	3,720	(8)	41
Unamortized net actuarial loss	95,472	60,138	13,080	16,717
Prepaid (accrued) benefit cost recognized in the statement of financial position	(1,839)	2,971	(46,516)	(41,937)

Prepaid benefit cost in 2007 is shown net of valuation allowance of \$nil.

Registered pension plan assets

As at the measurement date of September 30, registered pension plan assets were split by fair value between the following categories:

	2008	2007
Equity securities	53.9%	59.7%
Debt securities	45.6%	39.9%
Cash equivalents	0.5%	0.4%
	100.0%	100.0%

Summary of principal assumptions used to calculate benefit obligations

	2008 Pension Benefits	2007 Pension Benefits	2008 Other Benefits	2007 Other Benefits
Discount rate at end of the period	6.1%	5.4%	6.1%	5.4%
Rate of compensation increase	4.0%	3.5%	4.0%	3.5%

The assumed hospital and drug cost increase is 9.0% per annum initially. The rate is assumed to begin decreasing gradually commencing on October 1, 2010 to a rate of 5.0% in 2018 and remain at that level thereafter. Dental costs are assumed to increase by 6.0% per annum initially and to begin decreasing commencing on October 1, 2010 to a rate of 4.5% in 2013 and remain at that level thereafter.

Summary of benefit costs and plan contributions

	2008 Pension Benefits	2007 Pension Benefits	2008 Other Benefits	2007 Other Benefits
(in thousands of Canadian dollars)	\$	\$	\$	\$
Benefit cost	13,456	17,349	6,252	6,592
Employer contributions	8,448	7,948	1,575	1,432
Plan participants' contributions	2,579	2,385	-	-
Benefits paid	16,736	13,928	1,575	1,432

The most recent actuarial valuation of the registered pension plan for funding purposes was at January 1, 2008, and the date of the next required valuation is January 1, 2011.

Summary of principal assumptions used to calculate benefit costs

	2008	2007	2008	2007
	Pension	Pension	Other	Other
	Benefits	Benefits	Benefits	Benefits
Discount rate at the beginning of the period	5.4%	5.0%	5.4%	5.0%
Expected return on plan assets	7.0%	7.0%	-	-
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%
Rate of indexing of pension benefits	2.5%	2.5%	-	-

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at December 31, 2008	As at December 31, 2007
(in thousands of Canadian dollars)	\$	\$
Relating to property and equipment	4,539	7,938
Relating to operations	17,633	18,298
	22,172	26,236

8. DEBT**Note payable to OEFC**

The note payable to Ontario Electricity Financial Corporation (OEFC) is unsecured, bears interest at 7.9% per annum and is repayable in full on May 1, 2009. Interest accrues daily and is payable in arrears, in equal semi-annual payments on May 1 and November 1 of each year. The fair value of the long-term note payable is estimated at \$80,790,691 (2007 - \$81,722,627).

Credit facility

The IESO has an unsecured credit facility agreement with a Canadian chartered bank, under which the bank will make available to the IESO an amount up to \$60.0 million. The credit facility expires on May 1, 2009. Advances under this facility are available in Canadian dollars by way of a prime rate loan or the issuance of Bankers' Acceptances at market rates plus a stamping fee of 30 basis points per annum. Unused portions of this credit facility are subject to a commitment fee of 10 basis points per annum. As at December 31, 2008, there were no funds drawn on the credit facility.

The liquidity risks associated with the maturity of the note payable to OEFC and the expiry of the credit facility are discussed in note 11.

9. CAPITAL DISCLOSURES

In 2008 the IESO adopted new CICA Handbook section 1535, Capital Disclosures. The IESO's primary objectives are to maintain and enhance the reliability of Ontario's power system, administer the wholesale electricity market, and serve the needs of our participants and stakeholders. In order to fulfill its mandate, the IESO receives fees from market participants. The IESO has a limited ability to accumulate a surplus from these fees (note 10).

In addition, the IESO maintains a credit facility for short-term funding to support its various capital requirements. The IESO has customary covenants associated with the credit facility. The IESO is in compliance with all of these covenants.

10. ACCUMULATED SURPLUS AND REBATES TO MARKET PARTICIPANTS

In 2008, the IESO recognized \$1,386,144 in rebates to market participants of system fees (2007 - \$nil), due to net operating surplus in the year, increasing the IESO's approved regulatory deferral account to \$5 million. As at December 31, the components of the IESO's accumulated surplus were as follows:

	As at December 31, 2008	As at December 31, 2007
(in thousands of Canadian dollars)	\$	\$
Approved regulatory deferral account	5,000	691
Accumulated market penalties and fines	1,832	2,476
Smart Metering Entity - Accumulated deficit	(10,847)	(124)
Accumulated other comprehensive deficit	-	(29)
	(4,015)	3,014

Approved regulatory deferral account	As at December 31, 2008	As at December 31, 2007
(in thousands of Canadian dollars)	\$	\$
Accumulated Surplus - beginning of year	691	5,000
Revenues	134,306	133,630
Expenses	(101,331)	(103,870)
Amortization	(20,803)	(29,184)
Net Interest	(7,863)	(4,885)
Accumulated Surplus - end of year	5,000	691

Accumulated Market Penalties and Fines	As at December 31, 2008	As at December 31, 2007
(in thousands of Canadian dollars)	\$	\$
Accumulated Surplus - beginning of year	2,476	2,961
Revenue from Penalties and Fines	77	51
Customer Education Expenses	(721)	(536)
Accumulated Surplus - end of year	1,832	2,476

Smart Metering Entity - Accumulated Deficit (in thousands of Canadian dollars)	As at December 31, 2008 \$	As at December 31, 2007 \$
Accumulated Deficit - beginning of year	(124)	-
Revenue from Smart Metering Entity	-	-
Smart Meter Program Costs	(7,763)	(124)
Smart Meter Amortization	(2,557)	-
Smart Meter Interest Expense	(403)	-
Accumulated Deficit - end of year	(10,847)	(124)

As the Smart Metering Entity, the IESO has within its objects: to procure, as and when necessary, meters, metering equipment, systems and technology and any associated equipment, systems and technologies on behalf of distributors, as an agent or otherwise, directly or indirectly, including through one or more subsidiaries, if the Smart Metering Entity is a corporation; and to recover, through just and reasonable rates, the costs and an appropriate return approved by the OEB associated with the conduct of its activities.

In his approval letter to proceed to the OEB for approval of the usage fee, the Minister noted the intention of the IESO to apply to the OEB separately for a smart meter service fee with respect to the costs the IESO has incurred on the smart metering initiative. At that time, the Minister requested, prior to the IESO filing an application to the OEB in respect of a smart meter service fee, the IESO provide him with a detailed implementation plan, and schedule for the integration of the local distribution companies, to enable a broader transition to time-of-use pricing for electricity consumers. The IESO has yet to file the requested plan and, accordingly, not yet made an application to the OEB for approval of a smart meter service fee. Until the OEB approves a smart meter service fee the IESO will not have any revenues associated with the smart meter entity. It is the IESO's intent, consistent with the *Electricity Act*, to recover all costs, including capital costs and/or accumulated deficits associated with the smart meter entity through a smart meter service fee once approved.

11. FINANCIAL RISK MANAGEMENT

The IESO is exposed to financial risks in the normal course of its business operations, including market risks resulting from volatilities in equity, debt, and foreign currency exchange markets, as well as credit risk and liquidity risk. The nature of the financial risks and the IESO's strategy for managing these risks has not changed significantly from the prior period.

a) Market Risk

Market risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate to cause changes in market prices. The IESO is exposed to three types of market risk: currency risk, interest risk and equity risk. The IESO monitors its exposure to market risk fluctuations and may use financial instruments to manage these risks as it considers appropriate. The IESO does not use derivative instruments for trading or speculative purposes.

i) **Currency Risk**

The IESO conducts certain transactions in US dollars, primarily related to vendor payments, and maintains a US dollar denominated bank account. From time to time, the IESO uses currency forward purchase contracts to purchase foreign currencies for delivery at a specified date in the future at a fixed exchange rate. In addition, the IESO invests in pooled funds with US dollar and other foreign currency denominated investments. The reasonably possible currency risks associated with these exposures were not material as at December 31, 2008.

ii) **Interest Rate Risk**

The IESO is exposed to changes in interest rates primarily through its variable rate credit facility, cash equivalents, and long-term investments. Long-term investments include investments in a pooled Canadian bond fund. The reasonably possible interest rate risks associated with these exposures were not material as at December 31, 2008.

iii) **Equity Risk**

The IESO is exposed to changes in equity prices through its long-term investments. Long-term investments include investments in pooled equity funds. A 30% change in the value of equities in the IESO's pooled fund investments as at December 31, 2008 would have resulted in a change in net loss for the year (before the impact of adjustments to the approved regulatory deferral account (note 10) of approximately \$2.5 million.

b) Credit Risk

Credit risk refers to the risk that one party to a financial instrument may cause a financial loss for the other party by failing to meet its obligations under the terms of the financial instrument. The IESO is exposed directly to credit risk related to cash equivalents and accounts receivable and indirectly through its exposure to bond investments in pooled funds. Direct exposure to credit risk is limited to the carrying amount presented as assets on the statement of financial position. The IESO manages credit risk associated with cash equivalents (which amounted to \$12.4 million as at December 31, 2008) through approved management policy which limits investments to R1-High rated investments with counterparty-specific limits of no more than \$20 million. Accounts receivable as at December 31, 2008 included no material items past due and substantially all of the balance was collected on January 21, 2009. As at December 31, 2008, the Canadian bond fund in which the IESO invests comprised entirely of investment grade securities with 99% of the securities rated A, or better.

c) Liquidity Risk

Liquidity risk refers to the risk that the IESO will encounter financial difficulty in meeting obligations associated with its financial liabilities. The IESO manages liquidity risk by forecasting cash flows to identify financing requirements. Cash flows from operations and investment income reduce liquidity risk. The IESO's long-term investments in pooled funds are normally able to be redeemed within three business days; however, the manager of the pooled funds has the authority to require a redemption in-kind rather than cash and has the ability to suspend redemptions if deemed necessary.

As described in note 8, the note payable to OEFC is repayable at its face amount of \$78.2 million plus accrued interest on May 1, 2009. As well, IESO's credit facility of \$60.0 million, which was undrawn as at December 31, 2008, expires on May 1, 2009. The IESO will require new financing to be in place by May 1, 2009 to fund repayment of the note payable and to support ongoing operations. IESO management is in the process of finalizing negotiations to obtain the necessary replacement financing. IESO management anticipates that replacement debt arrangements will be in place by May 1, 2009 and believes that the risk that such will not be in place is highly remote. However, in the event new debt arrangements are not finalized by May 1, 2009, additional fees and interest costs may be incurred.

12. SEGMENTED INFORMATION

IESO consists of a single business engaged in the operation of the wholesale electricity markets, maintenance of the reliability of the IESO-controlled grid and implementation and administration of the smart metering initiative in Ontario.

13. COMMITMENTS

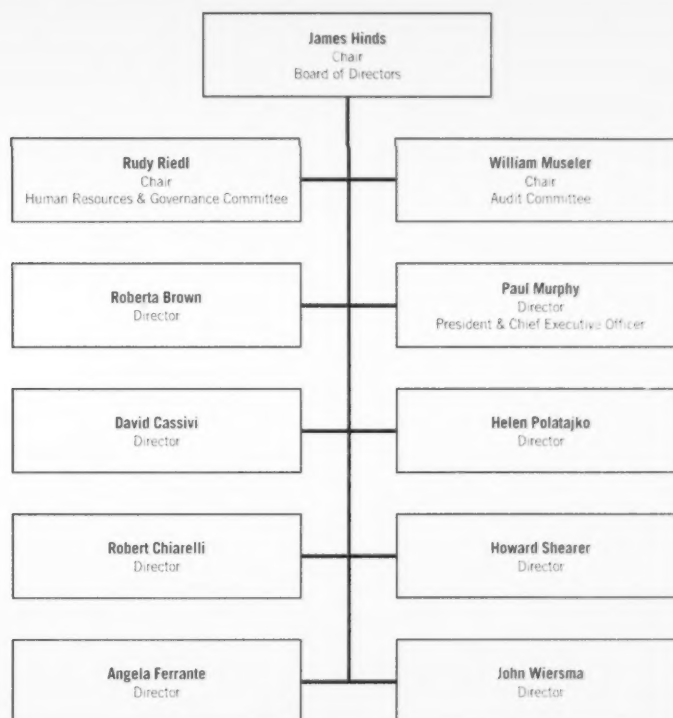
Operating commitments

The obligations of the IESO with respect to non-cancellable operating leases over the next five years are as follows:

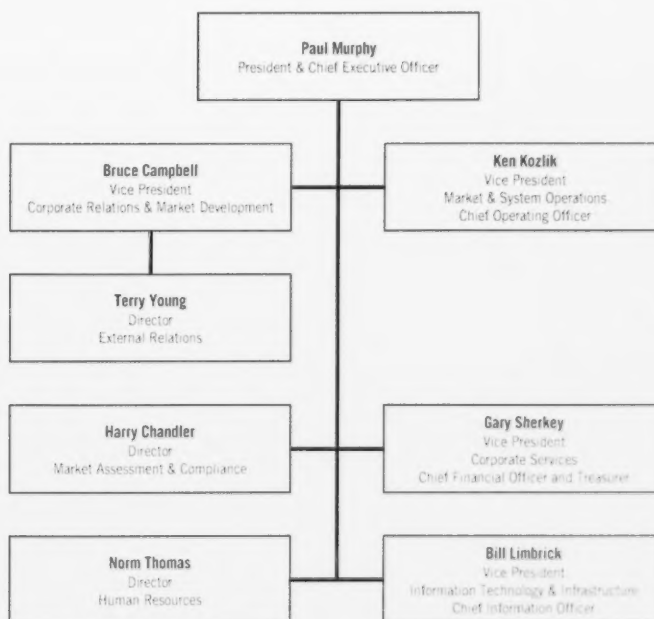
(in thousands of Canadian dollars)	\$
2009	2,039
2010	1,954
2011	1,402
2012	3
2013	-

Appendix A - IESO Organizational Charts

Board of Directors



Senior Management Team



Appendix B - Executive Compensation

Program Objectives

The IESO compensation program is an integrated program for all management group staff, designed to attract, retain and motivate the calibre of executives required to support the achievement of our statutory mandate, business objectives and corporate vision. Accordingly, the compensation philosophy and programs have been built on the following objectives:

- To focus executives on meeting the IESO's business objectives
- To attract qualified and talented staff needed to carry out the IESO's mandate
- To be able to retain valued staff
- To have the flexibility to reward results and demonstrated competencies
- To have compensation levels which are responsible and defensible to stakeholders and customers

The philosophy underlying these objectives is that total compensation for senior management should be sufficient, but not overly sufficient, to attract and retain the skills and competencies necessary to carry out the IESO's mandate.

Program Governance

The IESO Board of Directors (the Board) establishes the compensation objectives for these programs. They delegate the responsibility to thoroughly review the compensation objectives, policies and programs to the Human Resources and Governance Committee of the Board (HRGC) which makes recommendations concerning such to the full Board for approval. The Board is composed of 10 independent, external Directors, appointed by the Minister of Energy and Infrastructure, with broad experience in both industry and public sector organizations, plus the Chief Executive Officer (CEO). In carrying out their mandate the Board members have access to management's perspectives as well as those of expert consultants in the compensation field (including experts at various times from Towers Perrin, Mercer and Hay). These programs are reviewed at least annually including business needs, program objectives and design, industry compensation trends, internal compensation relativities, and external market relativities.

In addition to the formal governance and oversight structure in place for compensation matters, the IESO annually discloses compensation levels for staff earning \$100,000 or more as part of the public sector salary disclosure. For the IESO, a further level of public review and assurance is provided through a statutorily required annual fee review. Compensation matters, including management compensation and market relativities, are addressed during the OEB review. A broad range of small and large consumers, assisted by their legal and professional advisors, are represented in these public proceedings. The IESO is also responsive to various requests by the Ministry of Energy and Infrastructure in relation to compensation enquiries such as the Agency Review Panel (ARP) in 2007 which conducted an exhaustive review of senior management compensation for the various agencies in the Ontario electricity sector.

Market Comparisons

The IESO benchmarks compensation to similar positions in Canadian industry when establishing the compensation program for the following year. These comparator employers are segmented into government and non-government categories. Market compensation data is gathered for each segment. A 50/50 weighting is then applied to each of the government and non-government market results to reflect an overall comparator market for executive compensation at the IESO. When comparing the compensation of the IESO executives to this overall market, care is taken to assess positions of similar size, scope and complexity.

The comparator employers include 15 mid-size to smaller Canadian energy sector companies – seven government and eight non-government. The list of comparators is outlined below:

Government Comparators	Non-Government Comparators
<ul style="list-style-type: none"> • Alberta Electric System Operator • Atomic Energy of Canada Limited • Enmax Corporation • EPCOR* • New Brunswick Power Corporation • Newfoundland & Labrador Hydro Electric Corporation • Saskatchewan Power Corporation 	<ul style="list-style-type: none"> • Alliance Pipeline Ltd. • ATCO Ltd. & Canadian Utilities Limited* • Bruce Power • Emera Inc. • FortisAlberta • Kinder Morgan Canada Inc. (Pipelines) • Spectra Energy Transmission* • TransAlta Corporation*

**For these larger organizations a full level downward adjustment has been made for compensation comparison purposes (e.g. the IESO CEO level is compared to the SVP/EVP level for the external firm).*

While market data is gathered for various components of compensation, emphasis is placed on total rewards including the sum of fixed and variable compensation, benefits and pension. Thus, total rewards for IESO executives are benchmarked to the 50th percentile or midpoint of total rewards reported in the market data.

This approach includes gathering market data on executive compensation, segmenting and weighting government and non-government market data, and focusing on comparisons at the total rewards level. In addition to the comparisons outlined above, the IESO Board also reviews available compensation data for other North American Independent System Operators to determine if broader North American trends should be considered.

Program Description - Roles

The IESO's program includes fixed and variable compensation, core and flex benefit plans, and pension provisions. IESO Human Resources staff participates in and reviews results from various compensation surveys and monitors economic trends such as compensation trends, inflation and unemployment rates which impact on compensation, as well as monitoring internal compensation relativities. Based on this data and the IESO business priorities, Human Resources staff develops recommendations on compensation programs for all management staff. External specialized compensation, benefit

and pension consultants are utilized to ensure accurate, representative market compensation data is obtained, that current industry compensation trends are being utilized, as well as to provide insight and recommended adjustments to current programs. An expert, external consultant also reviews the recommendations as to the reasonableness and appropriateness of management's recommendations. Senior management reviews the recommendations and provides advice to the CEO who determines whether the recommendations should be advanced to the HRGC and the IESO Board. The Chair of the HRGC reviews the recommendations and supporting data prior to submission to the HRGC, along with the input from an expert, external consultant. The Chair determines if additional external expertise is required. The analysis and conclusions from these external experts are provided to the HRGC members for their consideration. The HRGC reviews in detail the recommendations, the supporting data and advice from the expert, external consultant(s) and decides on the recommendations to go to the full Board. The Board reviews the submissions and makes a final determination on the recommendations.

Program Description - Fixed Compensation

The Board establishes broad salary ranges for each level of executive taking into account comparable market relativities. Within these bands individuals are assessed as developmental, mature or expert in their position relative to an established competency model. This model consists of behavioural competencies, such as customer focus, drive for results, teamwork, leadership, and strategic business sense. The assessment is based upon demonstrated competency. Each individual is then awarded a fixed compensation level within their band.

Program Description - Variable Compensation

In order to promote a results orientation in the senior team, the variable pay plan is a significant component of the total compensation of executives. The CEO's target for variable compensation for 2008 was at 65% of fixed compensation and the target for Vice Presidents was 50% of fixed compensation. The plan provides for awards above or below target amounts depending on the performance results achieved. The IESO Board annually establishes a robust set of performance measures which are evaluated each year and these results carry a 70% weight within each executive's variable compensation award. The remaining 30% results from the assessment of predetermined measures/targets established for each individual executive. To address retention, 50% of the earned variable compensation is deferred and paid out over a three year period, with accrued but unpaid amounts forfeited in the event of termination with cause or voluntary resignation.

Program Description - Group Benefits

The group benefit plan provides a core level of health and dental benefits, life insurance, disability coverage and vacation which can be adjusted by the executives through the flexible component of the plan. The flexible element provides executives the option of adjusting their benefits to meet their individual/family needs including vacation above core amounts, increased life insurance, increased health coverage and other components.

Program Description - Pension Plan

A defined benefit pension plan provides annual retirement income calculated as 2% of fixed compensation and one-half of variable compensation paid during the highest paid 36 consecutive months of service and, multiplied by years of service, to a maximum of 35 years. This formula provides a maximum benefit of 70% of highest paid, pre-retirement earnings. The Canadian Revenue Agency limits the amount of pension payable from a registered plan and the IESO has a supplemental employee retirement plan (SERP) to provide pension income above that payable from the registered plan. Pension plan funding is a combination of employer and employee contributions.

Pension benefits from the plan are designed to provide a level income stream before and after age 65, when the IESO pension is reduced to reflect provisions from the Canada Pension Plan. The plan provides several benefit options including member's life only or joint and survivor pensions. As well there are pre-retirement death provisions to provide benefits to surviving spouses or beneficiaries.

Performance Measures and Impact on Compensation

The IESO annually establishes corporate performance measures relating to its business priorities during the business planning process. These are approved, monitored and assessed by the IESO Board of Directors each year. Individual performance measures supporting one or more corporate performance measure are also developed for each executive

As outlined above the results achieved each year impact on each executive's variable pay. The following chart highlights each of the business perspectives where measures are established and provides a brief description of the type of measurement which was approved by the IESO Board of Directors for 2008.

Business Perspective	Areas of Measurement
Customer & Stakeholder Satisfaction (35% Weight)	<ul style="list-style-type: none"> Contributions to an efficient electricity market through market operations; metering, settlement and market support services; and IT systems availability Operating the provincial government's Smart Metering Initiative Establishing a market evolution agenda that is supported by the Stakeholder Advisory Committee Market Pricing Working Group addressing various pricing-related issues The IESO responding to customers' and stakeholders' needs through the timely provision of products and services
Reliability (35% Weight)	<ul style="list-style-type: none"> Averting, mitigating or addressing significant, actual or potential reliability events Ensuring Ontario's annual System Unsupplied Energy is within acceptable limits Obtaining successful NERC/NPCC compliance audits and achieving compliance with NERC and NPCC reliability standards Performance assessed on a suite of eight reliability-related operational methods The IESO contributing to relevant Ontario regulatory proceedings and effectively managing Ontario and international reliability standard development processes

Effective Use of Funds (15% Weight)	<ul style="list-style-type: none"> • Total spending (OM&A + Interest + Amortization) is within the financial outlook approved by the IESO Board • Approved capital program is managed within the IESO Board approved capital envelope for 2008 and the required results are achieved • Four key projects as described in their respective approved business cases are advanced as planned, or delivered as planned during 2008 (for On-Line Limit Derivation, Participant Lifecycle System, Energy Management System & Market Information System Upgrade, Network Zoning Project)
People (15% Weight)	<ul style="list-style-type: none"> • Maintain highly engaged and committed employees • Implement Talent Management Program • Improve Performance Management

A five-point rating scale ranging from unsatisfactory to outstanding is used to assess the results for both corporate and individual performance objectives and is used to calculate the associated variable pay amount. According to this scale corporate results may be rated from zero to two times the target variable amount while individual results can range from zero to 1.7 times the target amount (the table below outline the ratings in detail). A payout factor is then determined and applied to the target variable pay amount for each executive.

Type of Performance	Corporate Rating	Individual Rating
exceptional/outstanding	1.8 - 2.0	1.5 - 1.7
exceeding expectations	1.3 - 1.7	1.2 - 1.4
meeting expectations	0.8 - 1.2	0.8 - 1.1
approaching expectations	0.3 - 0.7	0.4 - 0.7
unsatisfactory/below expectations	0.0	0.0

Other Considerations

Compensation decisions may at times be impacted by market factors – such as the recruitment of an executive with specialized skills/competencies or possessing unique talents within the industry. To this end individual incumbent arrangements are sometimes established relating to terms of employment and the possibility of future termination. The CEO has an employment agreement which outlines terms and conditions for a five and one-half year period of employment and includes termination provisions of 24 months for severance. The Vice-Presidents also have provisions which provide up to 24 months of severance for termination without cause. In addition, two Vice Presidents (Mr. Campbell and Mr. Limbrick) have agreements to provide accelerated pension provisions such that, at age 65, they will each have 25 years of credited service.

Executive Compensation and Pension Statements

The first table details the annual compensation for the year ended December 31, 2008 for the Executive Officers listed. The information provided in the Summary Compensation Table differs from the information published under the Public Sector Salary Disclosure Act (Ontario) for the indicated period due to the timing of payment of variable pay. Disclosures under the Public Sector Salary Disclosure Act are limited to amounts listed on T4 taxation forms for each year (i.e. includes variable pay paid out in 2008) whereas information in the summary compensation table is based on the year for which the variable pay was earned. Variable pay is determined early in the year following the year assessed. Under the IESO plan 50% of that amount is then paid early in the year following the assessed year and 50% is deferred for payment in future years.

The second table outlines pension plan participation and benefits for each of the Executive Officers listed. Specifically detailed are:

- total years of credited service in the pension plan
- the increase in the compensatory value of the pension (excluding member contributions) during 2008
- the increase in the non-compensatory value of pension (for example the interest earned on pension during the year) during 2008
- the accrued pension payable annually if the executive retired as of December 31, 2008
- the estimated annual pension with service credits projected to age 65 using actual pensionable earnings as of December 31, 2008
- various factors have an impact on pension calculations and, should interest or discount rates vary significantly from one year to the next, there will be volatility in year over year pension amounts reported. Pensions are long-term investments

SUMMARY COMPENSATION TABLE

Name and Position	Year	Salary	Variable Pay ¹		Other Annual Compensation ²	Total Cash Compensation	Amounts Reported Under Public Sector Salary Disclosure
			Paid	Deferred			
Paul Murphy President and CEO	2008	\$326,500	\$119,377	\$119,377	\$24,079	\$589,333	\$597,588
Gary Sherkey VP Corp. Services CFO and Treasurer	2008	\$253,604	\$67,522	\$67,522	\$10,996	\$399,644	\$444,124
Ken Kozlik VP Market & System Operations and COO	2008	\$225,000	\$59,906	\$59,906	\$12,332	\$357,144	\$323,465
Bill Limbrick VP IT&I and CIO	2008	\$265,720	\$68,755	\$68,755	\$6,919	\$410,149	\$464,075
Bruce Campbell VP Corp. Relations & Mkt. Development	2008	\$270,998	\$70,121	\$70,121	\$7,271	\$418,511	\$483,967

¹ Reflects variable pay earned in 2008 and subsequently paid out to each executive in early 2009 (50%) with deferred amounts (50%) to be paid over the subsequent 2 years with interest.

² Includes residual payout from IESO's flex benefit plan.

PENSION BENEFITS TABLE

Name and Position	Number of Years Credited Service	Increased Pension Value During 2008 ¹		Annual Benefits Payable Upon Retirement	
		Compensatory Amount During Year	Non Compensatory Amount During Year	At Year-End (2008)	At Age 65 ²
Paul Murphy President and CEO	31.3	\$227,000	(\$251,000)	\$227,000	\$254,000
Gary Sherkey VP Corp. Services CFO and Treasurer	6.8	\$75,000	(\$13,000)	\$41,000	\$69,000
Ken Kozlik VP Market & System Operations and COO	30.1	\$84,000	(\$136,000)	\$126,000	\$146,000
Bill Limbrick VP IT&I and CIO	14.0	\$171,000	(\$46,000)	\$89,000	\$159,000
Bruce Campbell VP Corp. Relations & Mkt. Development	17.7	\$204,000	(\$61,000)	\$118,000	\$166,000

¹ Based upon the financial year for the IESO Pension Plan from October 1, 2007 to September 30, 2008.

² Assumes no increase in pensionable earnings beyond those in effect as of year-end 2008.

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